Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

1812

THE NATIONAL CITY BANK OF NEW YORK

1928

UNIVERSITY OF MINNESOTA LIBRARY
RECEIVED
JUL 13 1928

Economic Conditions
Governmental Finance
United States Securities

New York, July, 1928

General Business Conditions

THE half year which has closed has neither justified the apprehensions of those who feared that it was leading the country into a serious depression nor realized the expectations of the sanguine ones who thought it likely to make a new prosperity record.

If assurance could have been given that the production of steel would surpass that of 1927 or 1926, that building operations would outstrip those of the corresponding period of last year and that the automobile industry would stage a satisfactory come-back, the general opinion would have been that a good year was in prospect. These are the outstanding features of the period, and they imply general industrial activity.

The steel output in the first five months was 21,050,000 tons, against 20,312,000 in the corresponding months of last year and 20,419,000 in 1926, and this was despite the fact that the railroads were taking less than usual. Construction work took large amounts, the revival in the automobile industry was an important factor and farm implement manufacturers have taken more than their usual quota. The miscellaneous demand is of constantly increasing importance, and has been good. The seasonal decline of production in June has been no greater than ordinary, the rate of output remaining slightly above that of June, 1927.

Pig iron, unlike steel, has fallen behind last year's production, the figures for five months to and including May being 15,438,921 for 1928 against 16,341,027 in 1927, however the figures are good.

Prices are still unsatisfactory to producers. The Iron Age composite figures for all grades of pig iron on June 26 were $17.21 per ton, $1.50 below the price in June, 1927. It may be added that this Iron Age record extends back to 1903, and that the average figures for that year were $18.18. This record is one of remarkable achievement, considering the great rise of wages in these twenty-five years. Number 2 foundry iron at Birmingham is quoted now at $15.50 per ton. Basic pig iron in the Mahoning and Ohio valleys has sold in recent months as low as $15.37. Notwithstanding the unexampled consumption of steel, the producers have not been able to prevent some shading of prices.

Among the non-ferrous metals, copper has been the most satisfactory performer, holding firmly to the 14¾c level established toward the end of May. This means an advance of 2¼c over the price prevailing a year ago. Zinc likewise has been doing well, showing a steady advance from the low point reached at the end of February. Tin, on the other hand, one of the most sensitive of commodities and particularly responsive to mere market sentiment, has been declining now for 16 months with but few and unsubstantial recoveries. Considering that at the end of June total visible supplies were only 1,000 tons above a year ago the drop of 19 cents per lb. from 66¼ to 47⅜, in that time, seems quite out of proportion to the change in the statistical position of the metal. Lead has advanced to 6.30 and has held there during the past month. Silver, which on May 24th had advanced to 64½c per ounce, largely owing to the demand created by the Chinese armies' insistence that they be paid in the "coin of the realm," has since lost more than half the gain made during March and April. On June 30th the San Francisco quotation stands at 60½c.

Real Estate and Construction

In building operations the aggregate of contracts to May 31 was about 9 per cent above that of the same period of last year, and June has been making a favorable showing. According to the Dodge Corporation new construction work contracted for in the 37 states east of the Rocky Mountains in May surpassed all records for any month since records have been kept. The aggregate was $668,000,000.

Bradstreet's compilation of building permits in 160 cities for May shows a gain of 6.8 per cent over that month in 1927, and a decrease of seven-tenths of 1 per cent in the five months ended with May.

Large power projects continue to be a feature of construction work. The New England Power Company is reported as having spent

101

upwards of $1,000,000 in the last year upon surveys and the purchase of property along the famous fifteen mile falls between New Hampshire and Vermont, for a power development which will be the largest east of the Mississippi River, with the exception of Niagara Falls. A total expenditure of $40,000,000 is planned.

In a formal review of the position of the lumber industry, Wilson Compton, secretary and manager of the National Lumber Manufacturers Association, says: "The lumber industry has rarely been in a more favorable statistical position. Fundamentally, the supply and demand relation in the lumber industry as a whole is more favorable than at any time during the past five years. Reported new business booked so far this year has exceeded production by 10 per cent. Not for many years, have there been so widely diversified outlets for lumber, including export, coastwise and rail trade, for both construction and industrial consumption."

The semi-annual survey of the real estate market just completed by the National Association of Real Estate Boards, covering 318 cities, shows that the market was more active than it was a year ago in 37% of the cities reporting while 32% reported the market the same as last year and 31% reported less activity. Selling prices were reported higher than a year ago by 14% of the cities, the same in 55% and lower in 31%.

The Automotive Industry

Production of automobiles including both passenger cars and trucks in the first five months aggregated 1,797,000 units, against 1,714,000 in that period last year, and this increase probably will be held through the half year. For the third month in succession the automotive parts and accessory business in May established a new seasonal record for volume and seems likely to repeat the performance in June.

Detroit employment figures for the third week of June were 263,197, against 189,898 last year and 225,337 in 1926. Exports of automobiles in May were 18 per cent over May of last year, and the companies most active in the foreign field are expecting continued expansion in this trade.

General Industry and Trade

Despite the good showing in steel, automobiles and construction work there is evidence that the total volume of business is not quite up to that of the first six months of 1927. The total number of cars loaded with revenue freight in the 24 weeks to June 16 was 22,467,267, which compares with 23,481,542 in the corresponding weeks of 1927 and 22,175,586 in the same weeks of 1926. The operating revenues of the railroads in the first four months were $1,893,513,565, against $1,987,687,365 in these months last year.

On the other hand, bank debits, signifying check payments, outside of New York City, aggregated $72,261,000 in the first quarter against $68,267,000 in the same quarter last year, and $81,363,000 in the second quarter (June partly estimated) against $70,261,000 in the corresponding period of 1927. New York City is eliminated because of the importance of the Stock Exchange as a factor, but the activity in stocks has affected the figures outside of New York to some extent.

Trade has been affected by unfavorable weather conditions, the Spring being decidedly backward. Wholesale and retail trade increased generally in May. Mail order houses and chain stores showed decided gains over May of last year.

The news print situation has been disturbed by price-cutting and reported withdrawals of several prominent members from the Canadian producers' organization. This organization has been supposed to have an effective control of the market, but the growth of production appears to have imposed a greater strain than it was able to stand.

Production of boots and shoes in the first four months of 1928 aggregated 113,318,737 pairs, against 111,950,820 in the corresponding period of 1927. Shoe prices have advanced in the past year in consequence of higher prices for leather and other increasing costs. The leather industry is in a quiescent state after a period of advancing prices. Stocks of leather in the country are only about thirty days supply for consumption demand.

The Iron Age reports volume of orders for machine tools in first six months 15 to 20 per cent of same period of last year. This is indicative of general activity in the industries.

The Textiles

The cotton goods industry has been suffering from too much output, and has been in the chronic condition of not being able to buy new supplies of raw material upon the basis of goods prices. Under pressure to reduce costs the mills have been developing the policy of night operations, which reduces the percentage of the overhead charge, but probably reduces selling prices still more. Many of the mills are extending the July 4th holiday over to July 9th with a view to reducing the surplus. Rising prices for raw cotton, due to the poor crop prospects, is now aiding the movement of goods, and may relieve the mills which have been accumulating stocks.

Twenty-six cotton mills at New Bedford have been closed three months by a strike against a wage reduction. The companies have announced that they will open the mills for operations on the new scale on July 9, but

the operatives organization says that the reduction will not be accepted.

The rayon industry is the most active branch of the cloth-making business, and very interesting developments are under way in this field. The natural silk industry also is busy, and at present aided by cheap raw material. Imports of raw silk from Japan have been surpassing all records.

Oil Industry

A better feeling undoubtedly pervades the oil industry. The Seminole pool, reports from which were carrying dismay to producers one year ago, is down about 50 per cent since. An advance of 25 cents per barrel in Pennsylvania crude has been a hopeful sign. A decline of 2,067,000 barrels in gasoline stocks at refineries east of California in May, with price advances in a number of localities, have been even more significant. The successful prorating of production in several counties of Texas, by order of the State Public Service Commission has helped much to improve sentiment, as it indicates a possible means of helpful regulation.

The State of Texas has an important income from royalties upon oil produced on State lands, and is interested in having the oil sold at a fair price.

One result of the past year's developments with respect of oil production, according to Mr. Walter C. Teagle, President of the Standard Oil Company of New Jersey, has been to postpone indefinitely, if not eliminate entirely, periodic scares of oil shortage. In his annual report for 1927 he says:

> For the first time there has been developed by the industry sufficient raw material in place, which can be defined and measured as reserves, to insure stability of resources over a period of years.
>
> In addition to the domestic shut-in production, the new production developed during the year in Venezuela, Colombia and Mesopotamia provides further security against scarcity of crude in the long future, and these reserves are again reinforced by the means that are being perfected for obtaining gasoline and fuel oil from materials other than crude petroleum.
>
> The influence which this change will exert upon the economics of the industry promises to be far reaching. From the present outlook, existing stocks of crude can be drawn upon without danger of hazarding future motor fuel requirements, and the petroleum industry is now in the category of other basic industries which possess sufficient control of their raw material to insure them against any imminent inadequacy of supply. With the gradual lessening of competitive effort to bring in sources of supply the industry should attain a new degree of stability. The indefinite postponement, if not actual elimination of the element of hazard in respect to supplies of raw material, not only places the industry on a sounder basis, but should tend to modify the extreme fluctuations in the earnings of petroleum companies.

The annual report of the Royal Dutch Company gives a review of the petroleum industry for 1927 which includes the following figures of crude production by the leading countries in the last two years:

	1927 Metric tons	1926 Metric tons
United States	128,017,000	109,687,000
Russia	10,284,000	8,900,000
Venezuela	9,147,700	5,327,000
Mexico	9,119,300	12,900,000
Persia	5,227,200	5,091,190
Rumania	3,661,360	3,241,000
Dutch East Indies	3,628,116	2,950,608
Colombia	2,073,800	915,345
Peru	1,392,040	1,528,690
Argentina	1,235,790	930,153
India	1,164,770	1,249,580

The Crops

The Spring was backward and weather conditions have not been the best anywhere, but on the whole the outlook for the grain crops is not discouraging, except in the central west, where the winter wheat crop is very poor. The Kansas wheat crop was estimated a month ago at about 170,000,000 bushels, but bad storms since have impaired the prospect to some extent, although the crop undoubtedly will be one of the best the State has ever made. Oklahoma also has a good crop, but Texas has suffered much from drought and high winds. The Southwest is said to be good for 300,000,000 bushels.

The Spring wheat region in the Northwest does not have as good a prospect as last year. It did not have enough rain in the fore part of the season, but has had rains in the past month which have improved conditions decidedly. The area sown in this belt is said to be 1,000,000 acres more than last year, and the Canadian acreage is said to be 1,500,000 to 2,000,000 acres larger than last year. It is now calculated that the Canadian crop as last year was 25,000,000 or 30,000,000 larger than the official estimate then made. Murray's estimate as of June 2 was for a total wheat crop in the United States of about 100,000,000 bushels less than last year. The latter was about 65,000,000 bushels above the five year average.

Wheat markets were very strong in May, on poor outlook for winter wheat, and prospects of a light world carry-over. The declining exports from Russia in recent years have been a factor. Prices are down about 36 cents from the May top, on improved outlook in the United States, Canada, North Africa and Europe, but the price situation is fairly promising.

The corn crop has a good start, and moisture conditions are favorable. The carry-over will be light. The price at $1.05 Chicago is about 10 cents per bushel over a year ago, and the oats situation is about the same.

Hogs have had a price-recovery in the past month and are now about $1.40 per cwt. above one year ago. The Government's survey of the Spring pig crop indicates a decrease of 4,000,000 for the country, as compared with last year, of which 3,000,000 is in the corn-belt states. Cattle, sheep and wool are on a good price basis.

The backward Spring has held down milk production, with the result that the amount of butter into storage thus far has been notably less than last year, and prices are about 2 cents per lb. higher in consequence. Condensed and powdered milk and cheese are affected in like manner.

The acreage in cotton is estimated at 5 or 10 per cent larger than last year and fertilizer sales have been large, but the crop has had very bad weather to this time, and the outlook at the moment is depressing. The market has responded by an advance to above 22 cents. Cultivation has been interrupted over much of the territory by wet weather and the crop in the Southwest has had to contend with sand storms, drought and wet weather in turn. Not much time remains for recovery.

The Political Campaign

The national conventions having been held and the candidates and platforms of the principal parties placed before the country, politics will be a subject of increasing interest over the next four months. Opinions differ as to the influence of political campaigns upon business, but unquestionably it varies with the issues and candidates. The most apparent instance of such influence was that of 1896, when general alarm was manifested in business circles over the campaign for the free coinage of silver. The campaigns which have centered upon the protective tariff, with one party proposing to lower the duties and the other declaring that such a policy would work great injury, naturally would have reactions upon business in some lines. The known views of the candidates upon questions of public policy inevitably are of importance, because the Presidency is an office of very great power. Platform declarations also are important, but unless they are exceptionally clear cut, as in 1896 on the money question, are subject to such varying interpretations that they are not likely to be very influential either in the campaigns or in party policies afterward.

The radical elements of society are always saying that there is no difference between the two leading parties, because the ideas upon which the radicals place emphasis are unacceptable with either. The radicals are not numerous enough, flocking by themselves, to have any chance of coming into power, and the people naturally divide into two parties which are not so distinctively different but what either may come into power without revolutionary changes. It is desirable that the country shall have such alternative choice.

The two leading candidates for President this year are both men who have won the high distinction which has come to them by the capabilities which they have displayed as practical administrators in high executive positions, rather than as orators or champions of distinctive political theories. It is quite possible that if they were to compare their personal views about the administration of the Government, and even upon public policies, free from party responsibilities, no great differences would develop between them, at least upon what are primarily business questions. In brief, there is no issue between the candidates that is likely to make a disturbance in business circles.

Almost as much may be said of the platforms. The tariff issue has not been as clearly defined in recent campaigns as it was in the Cleveland campaigns. The growth of manufacturing over the country, and particularly in the South, has modified the attitude of the Democratic party, making it less disposed to commit itself to sweeping changes. This year the change of attitude is still more marked.

It is a common criticism of platforms that they deal in generalities, but there is much to be said against definite pledges hastily made under the circumstances which surround political conventions. The latter are not law-making bodies, and constituted as they are and functioning as they do they should not take action which will have the effect of depriving the constitutional authorities of the independent exercise of their own judgment.

The question of legislation for farm relief illustrates this comment. The farm problem is a practical economic problem and should be dealt with as such and not as a political football.

Money and Banking

The principal factors in the money market over the last five years have been gold imports and exports and the absorption of credit by the stock market. The country's holdings of gold increased from $4,049,000,000 on June 30, 1923, to the peak figure of $4,610,000,000 on May 1, 1927, or by $561,000,000. This gold entering the bank reserves increased the capacity of the banks to issue their own credit, with the result that in the same time the total loans and investments of all banks in the country reporting to either the National or State authorities increased from $43,905,000,000 to $53,934,000,000, or approximately $18 of credit expansion to each $1 of additional gold. This increase of bank credit in circulation of course had the effect of increasing bank deposits, which rose in the same time from $40,653,000,000 to $51,612,000,000, not including redeposits (deposits by banks with each other).

These figures illustrate the pyramiding of bank credit upon gold reserves, a practice entirely legitimate within safe limits, and which obviously greatly increases the service of the reserves. The showing also will aid the reflective reader to truly appreciate the vital function of the gold reserve.

Rising Prices of Securities

This great expansion of credit was not needed to supply the ordinary wants of industry and trade. Credit, or "money" as the term is used, would have been a drug in the market, but for a use which had great possibilities of expansion, i. e., for trading in securities. The stocks and bonds traded in on the New York Stock Exchange are the issues of important corporations and their selling values naturally fluctuate with the state of business, the state of confidence as to the future, and the state of the money market. Prices generally were depressed in the great deflation of 1920-21, when industry and trade were depressed, credit conditions were strained to the limit, and the future was beset by a multitude of uncertainties. As gold flowed into the country and replenished the bank reserves, the supply of credit increased still more rapidly and interest rates declined, affording an evident inducement to buy stocks and bonds. At the prices then prevailing, yields were commonly in excess of carrying costs. This was the beginning of the great market advance. It was perfectly rational and sound.

Rising prices in themselves provide another incentive to purchases. As the speculative fever develops, buyers pay less attention to income yields and more attention to the nominal enhancement of capital values, which is a much more doubtful criterion of real value.

Earnings Basis of Security Prices

On May 19, 1927, the Standard Statistics Company published a calculation based upon the latest earnings of about 350 industrial corporations, which showed that the market value of the stocks was 11.2 times the yearly net earnings, giving a yield (earnings, not dividends) of not quite 9 per cent on the aggregate valuation. It is to be considered that these stocks represent leading corporations, and having regard for established position and prospective growth, with the margin above 6 per cent available for future financing, it might be argued that on the whole this was not an excessive valuation. On the other hand, 10 per cent never has been considered a high rate of earnings for capital subject to the hazards of business, and particularly where the capital is sunk in plant investments from which it cannot be withdrawn. In cases where indebtedness stands ahead of the stock, this would be another factor; also it is to be borne in mind that 1926 was on the whole a better than average year.

On April 20, 1928, another computation was made by the same statistical organization covering practically the same corporations, which showed that at that time the aggregate of market values was 15.2 times the latest available figures of earnings, which would figure out a yield upon the current valuation of about 6.6 per cent. Although business was not quite as good in 1927 as in 1926, the reduction of yield was mainly due to the higher market valuation.

The reader may have his own opinion of the valuation indicated by this ratio of market prices to earnings. With due regard for what the future growth of the country may do for corporations—a very uncertain element of value for most of them—well informed buyers doubtless might still make selections which on the long pull would give larger results than bond investments, but what would be the chance of the average adventurer in the market, trading for the long pull on a marginal account and subject to the vicissitudes of the market?

The Outward Movement of Gold

Meantime the vicissitudes had begun. The gold movement, which has furnished the principal motive power behind the great advance, has been reversed. Net exports of the metal from September 1, 1927, to June 30, 1928, have been $503,000,000. This is a loss of nearly nine-tenths of the gain of the period from June 1, 1923, to May 1, 1927. We have seen that the imports of that period were promptly utilized as the basis of credit, and since a large portion of those additions to our reserves have gone back to where they came from, it would seem to be in order to reduce the outstanding volume of credit, or at least put a stop to further increases.

Under our banking system as it was before the Reserve system was established reduction would be imperative and forthwith. The Reserve system, however, was intended to provide against such emergencies, by creating a reserve of credit which might be used when needed, until required adjustments could be gradually made. The Reserve banks had previously acquired so large a stock of gold that they have been able to allow the recent exports to take place without a corresponding contraction of credit. The large reserves have served as a cushion, which has partly absorbed the effects.

If the outstanding volume of bank credit had been contracted as the result of recent gold exports at the same rate as it was increased when an equal amount of gold came into the country, the stock exchange would have experienced a liquidation which in comparison with that which occurred last month would have been as a cyclone to an evening zephyr.

Warnings Disregarded

The Reserve authorities had given warning that in view of the heavy loss of gold from the Reserves they looked with disfavor upon further expansion of credit in stock exchange loans. Their position upon this point should

not be misunderstood. They were not seeking to regulate the investments of individuals, or assuming to say that stocks were too high. Their concern was for the position of the Reserve system as custodian of the final banking reserves of the country. They recognized that for the Reserve system to be increasing its liabilities while its reserves were diminishing was burning the candle at both ends.

They raised the discount rate to 4½ per cent, which is now in force at all the Reserve banks, but they took more effective steps by selling Government securities in the open market, which had the effect of drawing funds from the market. Current rates for money stiffened, and this had the effect of attracting funds from many sources. The aggressive element of exchange traders smiled at what they said were futile efforts on the part of the Reserve authorities to keep funds from the market. Some of them even asserted that the market supply was being increased by the Reserve tactics, because no other business could afford to pay as much for money as a speculator in a bull market—as though the bull market was actually creating wealth!

Bank depositors—in some instances interior banks and in numerous instances corporations and individuals—drew on their bank balances to take advantage of high rates in the market. The effect was to tighten money for all purposes. A New York journal has published the following as an extract from a letter said to be from a business man in an interior city:

> They say that money rates are being raised in Wall Street to stop speculation and help business. But is it helping business? We all know that money rates throughout the country are governed by money rates in Wall Street. The banks are charging me more for money borrowed than at any time since the first of the year. When I complain they refer to the rates prevailing in Wall Street. If money rates continue to advance in Wall Street the effect on business may be very bad.

This is interesting as revealing the superficial view. This business man apparently did not stop to think that the resources of the Reserve banks are not limitless, and that they must be conserved, even if money rates are made high.

If the Stock Exchange, or any other concentrated demand should have command of all the credit it wanted at low rates, control over the reserves would have passed from the Reserve authorities. Obviously a Reserve system which had exhausted its reserves no longer would have any possibilities of usefulness. It would be down and out.

The withdrawal of deposits referred to did not create any new supplies of credit, and eventually the high interest rates, and known attitude of the Reserve authorities and bankers generally, chilled the enthusiasm of the market. The average man trading on the strength of money borrowed on call began to think that, after all, the matter of money supplies might be worth considering. Moreover, the situation had changed from the time when dividends paid the carrying charges. The market became irregular, then slipped, and stocks came out with a rush which on June 12 broke all the records of the exchange, at over 5,100,000 shares in the day's session. Practically the entire list suffered losses, the common range among active stocks being from 10 to 25 points.

It must be said, however, that the event sustained the claim that the market was well fortified against a reaction. While a great many accounts were wiped out, the process was orderly and without what is termed demoralization. Apparently a large amount of buying power was waiting for bargains.

After a mild rally the market sobered down and remained quiet for the rest of the month, with money ranging at 5½ to 8 per cent. Tight money in the last half of the month was largely due to midyear settlements, although if the Reserve bank had been a little more concerned to afford relief the stress might have been lessened.

A Market Mirage

Reviewing the outburst of activity since the beginning of March, the heedlessness of the aggressive element of traders is something to wonder at. Brokers' loans were rising to new high figures from week to week, and as the $4,000,000,000 mark was passed $5,000,000,000 was readily predicted and the more sanguine bulls thought that $10,000,000,000 might not be far off! It was well known that large sums of foreign money were being employed here, and might be withdrawn at any time, in fact, certain of these holdings were being withdrawn. It was known that owing to slackening trade, unusually large sums had come to New York from the interior for day-to-day employment, and a revival of business would draw this away. The amount of currency in circulation was $100,000,000 less than a year before, and this had increased the banking reserves in the same degree as a like amount of gold. Upon these temporary resources was being built a growing fabric of credit, all confessedly for the purpose of discounting the developments of a more or less distant future. Furthermore, in the face of rediscounts at the Reserve banks growing from week to week, a strange assurance existed that the market was quite independent of Reserve policy!

The Figures for What Happened

Average of rediscounts and borrowings of member banks at the twelve reserve banks in February was $463,000,000, in March $489,000,000, in April $637,000,000, in May $826,000,000. On June 6 they rose to $981,998,000 and on June 13 to $1,042,858,000. On June 20, as a result of the break in prices, they had de-

clined to $990,827,000, but on June 27 rose again to $1,031,874,000.

This is the story of accommodations sought by member banks, for which of course they offered the class of collateral prescribed by the Reserve act, i.e., commercial paper or Government obligations. While responding in this manner to applications believed to be in consonance with Reserve policy, the Reserve banks were modifying the general effects by selling securities. This appears from the following statement comparing the amount of discounts and advances, bills bought in the open market, and Government securities with the total Reserve credit outstanding at the dates quoted.

ALL FEDERAL RESERVE BANKS
(In million Dollars)

1928	Discounts and Advances	Bills Bought in Open Market	U. S. Securities Held	Total Bills and Securities
Feb. 1	423	377	434	1,235
March 7	482	338	403	1,224
April 4	601	344	383	1,329
May 2	757	363	292	1,413
June 6	982	266	210	1,459
June 13	1,043	240	223	1,507
June 20	991	224	223	1,438
June 27	1,032	223	212	1,467

It will be seen that while discounts and advances to member banks were rising, the other items were declining, so that while the former increased about $600,000,000 in the five months the net increase of Reserve credit outstanding was only $232,000,000.

Brokers' Loans

Brokers' loans, as reported to the Federal Reserve Bank of New York by member banks located in New York City, declined from the peak of $4,563,000,000 on June 6, by $135,000,000 to June 13, $158,000,000 more to June 20, and $110,000,000 more to June 27, or a total of $304,000,000 in three weeks. These loans, it should be understood, although all made by member banks of New York City, are only in part on their own account, the major portion being made for account of customers upon whose instructions they are acting. The division into three classes, upon the dates given, is shown herewith:

	June 27	June 6	January 4
Loans for own account ....$	941,346,000	$1,167,000,000	$1,511,000,000
Loans for out-of-town banks	1,488,890,000	1,642,000,000	1,371,928,000
For account of others	1,729,028,000	1,754,000,000	928,000,000
Total ....$	4,159,264,000	$4,563,000,000	$3,810,000,000

The total by the latest statement is not quite down to that of April 25, 1928, which was $4,144,386,000. On June 29, 1927, the total was $3,118,000,000.

It will be seen that the share of New York City members for their own account has declined by $570,000,000 since January 4. The share of out-of-town banks increased to June 6, but then fell off $154,000,000. The share of "others," which includes individuals, corporations and foreign banks, increased by $828,000,000 from January 4 to June 6, then fell off $28,000,000 to June 27. These figures throw some light upon the sources of the new funds attracted by high rates. Evidently those funds did not all represent net gain to the market.

The Prospects for Money

The pressure on the money market occasioned by the midyear settlements will be over soon, but the outstanding feature of the situation is the indebtedness of the member banks to the Reserve banks, now $1,031,000,000, against the average of $489,000,000 in March last, and $477,311,000 on the corresponding date last year. Few persons who have any conception of the fundamental principles upon which the Reserve system is based will contend that it is sound policy to allow individual members to be continuously indebted to the Reserve banks. The system is intended to be a stand-by resource for temporary aid, constantly recovering the lending power which it uses, in order that that power may remain unimpaired.

If the Reserve authorities adhere to this theory they will want to see the body of rediscounts reduced to normal proportions before the usual Fall demand for Reserve credit for commercial purposes sets in. It is to be considered that member bank borrowings at the Reserve banks showed above $500,000,000 in only five statements of 1927, one of which was that of January 5, and two others of December 21 and 28, the three being under the influence of holiday demands. The other two showed $508,000,000 on May 4 and $507,000,000 on July 6. Hence it does not seem probable that there will be any important relaxation of money conditions this year, unless there is further reduction of loans on stocks and bonds.

When the usual Fall requirements make themselves felt, the Reserve banks may be expected to take action to avert undue stringency on their account, probably by open market operations which will replenish their holdings of Government securities. This would place them in position to continue sales of such holdings next year, in support of their policies.

Undoubtedly the high rates prevailing in New York in the last month have caused transfers of funds from Europe, principally London, but probably for the most part of funds belonging here or destined for payments here. There is nothing in the European situation at present which indicates another gold movement in this direction. The suggestion has been made that gold may come from France after stabilization there has become a settled

fact, but this is improbable. The Bank of France apparently requires all the gold that has been accumulated to meet the 35 per cent reserve requirement of the new monetary act, with a fair margin.

Additional French funds remain here, but for the most part they are producing income, and, it may be presumed, will not be disturbed for the present, inasmuch as money is cheap in Paris. Henceforth, movements of capital between France and other countries are expected to be free of arbitrary control.

This country's exports and imports of gold in the last month have been as follows:

GOLD MOVEMENT IN JUNE, 1928

	Exports	Imports
France	$54,000,000	
Great Britain	10,000,000	
Italy	4,000,000	
Poland	3,000,000	
Argentina	1,000,000	
Canada		$18,600,000
Miscellaneous	1,019,000	817,000
Total	$73,019,000	$19,417,000

All of the shipments to European countries have been made in the face of adverse exchanges, indicating that the importing countries have desired to increase their gold reserves. Therefore, it cannot be considered certain that gold will not continue to go out, particularly if our people continue to make investments abroad. The movement to Germany undoubtedly is the result of the revival of German borrowing operations here. Higher rates for money here naturally will tend to check foreign offerings in this market.

Long Term Interest Rates

High rates for money in the short term market inevitably check the flow of new capital into permanent investments, and in this way affect bond values for the time being. It should be noted that at present there exists a competitive struggle for funds. If the stock market is able to hold all that have been attracted to it, high rates will continue indefinitely, assuming a continuance of present Reserve policy, and if banks sell bonds to meet increasing demands for commercial credit, bonds may suffer a further decline. On the other hand, if the stock market relaxes its demands on the credit supply, money will be easier and bonds will be in increased demand.

In the long run, the governing influence upon bond yields is the demand for capital for new enterprises, expansion of the industries, and new constructional work of all kinds, in comparison with the supply of new capital made available by savings and profits. Another factor has been present in recent years in the increased amount of bank credit resulting from the abnormal enlargement of our banking reserves. This has been employed by increasing bond-holdings, and now that the flow of gold has been reversed, bonds are affected in some degree like stocks, by the tightening of credit. However, the supply of capital is increasing rapidly, and there is little reason to doubt that when the present flurry in money rates is over, competition for safe investments will dictate yields at least as low as any that have been realized in the past year.

The Bond Market

Weighted down by more stringent credit conditions and by uncertainties as to the immediate outlook for money rates, prices in all departments of the bond market underwent substantial declines during June, and are now at levels regarded by many astute investors as particularly attractive from a long pull standpoint.

The Dow Jones average for 40 listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on June 13th reached 96.91, the lowest level so far this year and 2.57 points under the high figure recorded on January 13th. A fair recovery later in the month brought the averages back to 97.18 on June 25th as compared with 98.22 on May 25th and 96.86 on June 25th a year ago. Although the averages may possibly establish even lower levels before the current readjustment is completed, banks, institutions and large private investors who know the difficulties in the way of trying to pick the bottom of a decline, are apparently willing to make commitments at current levels. The past week has seen a renewed movement of bonds to the strong boxes of the more important buyers.

Interest rates in most parts of the world are at lower levels than have prevailed at any time since the world war. Many foreign countries which heretofore have been heavy borrowers in outside markets are becoming able to meet their own capital demands. Unless American industrial development proceeds at a pace much more rapid than now appears possible, and hence makes unforeseen demands on American capital, it appears likely that the trend of interest returns on long term investments will be downward for some time to come. In the light of this situation the current market appears an advantageous one in which to make long-term investments.

The dealers who complain most about lack of buying demand are those who apparently have been unwilling to readjust prices on their accumulated stocks to correspond with the present market. Where such readjustments have been made, bonds have moved in fair volume. There has been some shrinkage in new financing, but offerings appearing at prices in line with the prevailing level of outstanding issues of similar types have been distributed without difficulty.

United States Treasury Financing

The Treasury Department's regular June financing, announced on June 6th, took the form of six-months and nine-months Treasury Certificates of Indebtedness, totaling $400,000,000 and bearing interest at 4 per cent and 3⅞ per cent respectively. Subscriptions totaled $992,363,500, against which allotments of $428,148,000 were made. On June 11th the Treasury Department made public an offer to buy up to $125,000,000 of Third Liberty 4¼s at 100-2/32, such offer to remain open until June 19th, unless later extended. A few days before expiration of the offer the time limit was extended indefinitely and the limit on the amount which the Treasury would accept was also withdrawn.

Of the $4,175,000,000 of Third Liberty 4¼s originally distributed in 1918 about $1,250,000,000 still remain outstanding. The number of subscribers to the original loan was about 18,200,000, which makes the problem of final redemption an extremely difficult one. The reason bonds have not come in more rapidly in response to the Treasury's purchase offer is apparently that many holders expect at least one more offering of a conversion loan some time before the bonds finally mature. The timing of such an offer, if made at all, will of course depend upon the trend of the money market during the period before maturity.

Municipal Demand Improves

Further readjustments in the municipal market during the month have brought prices back to levels where a fairly strong buying movement has again set in. Dealers report increased inquiry from institutions, trustees and large private investors and also a substantial volume of sales in larger blocks. Contrary to the belief in some quarters, the dealer situation is much healthier today than it was during the decline of a year ago. At that time dealers were reluctant to change their prices to meet the new levels with the result that stocks on hand mounted to figures estimated at well over a quarter of a billion dollars. It is extremely difficult to estimate the current dealer situation but there is little doubt that present willingness to readjust prices has kept the supply within easily manageable limits. The volume of new offerings during May and June was substantially lower than during the same months a year ago, a situation which has tended also to relieve the strain. Dealers who have lightened their stocks are apparently in good position to handle the moderate volume of new municipal financing in prospect during the Summer.

High Grade Utilities Show Resistance

During recent months high grade public utility bonds have shown greater resistance to firming money rates than most other types of bonds, due primarily to the growing demand for such high grade issues qualifying for savings bank investment in New York State under the revised statutes. Also, the recent admission of a comprehensive list of utility debenture obligations and preferred stocks for life insurance companies has served as a stimulant to the demand for junior utility obligations.

The public utility industry enjoys a higher investment status than at any time in its history. The tendency during recent years has been for underlying public utility bonds to approach more closely the yield on high grade rails. This has been due not alone to the legal factors outlined above but also to a growing popular recognition of the soundness of the public utility industry and of the investment value of mortgage bonds of the stronger companies. During periods of business recession public utility companies experience less fluctuation in gross income and in earnings than do industrial companies. This is one reason why so many states have admitted certain public utility bonds to their "legal lists" during recent years.

Foreign Issues

Yields on foreign bonds as a group are still so high that these dollar issues have not been as seriously affected by higher money rates as the high grade domestic list. It was only reasonable to expect, however, that a major reaction in domestic bonds should have produced some corresponding reaction in foreign issues also. In view of constantly improving foreign credit conditions and the growing popularity of foreign bonds among investors of all types, as well as the prospects for a continued decline in the volume of desirable new foreign offerings, it appears that the current reaction in many of the high grade foreign issues has gone further than justified by the sound conditions underlying the foreign market.

Many foreign bonds which earlier in the year had been selling at or above their call prices have been brought recently to levels well under the call figure, again making them attractive from the standpoint of future market appreciation. One of the objections to many high grade foreign issues heretofore has been that they commanded prices above their call levels, thus eliminating the possibility for further capital appreciation and opening the possibility of redemption below the purchase price. Undoubtedly many investors who are convinced that better conditions are ahead in the field of foreign finance will take advantage of the present decline to enlarge their holdings of the better grade foreign issues.

The French Monetary Reform

The long awaited event has occurred in France, and the value of the currency has been definitely and permanently fixed by the adop-

tion of a new monetary unit. The name "franc" is retained, but is now applied to 65.5 milligrams of gold nine-tenths fine, the other tenth of the content consisting of alloy, as in the case of the old French gold coins and of our own United States gold coins. This gives the new franc a melted value of about 3.91¾ cents in money of the United States. The French gold coins of previous coinage will be recoined on this basis, and the paper notes of the Bank of France, which constitute the paper money of the country, will be redeemed in gold on demand upon this basis. The Bank, however, is allowed the option of redemption either in the new gold coins or in fine gold ingots. It is presumed that the Bank will follow the example of the Bank of England under the resumption act which went into effect three years ago, and refuse to pay out gold coins for ordinary circulation, on the ground that this contributes to private hoarding and depletes the country's reserves. Redemption in bullion serves all the purposes of commerce and effectually stabilizes the currency.

The old franc had a value of 19.3 cents in United States money, hence stabilization has been effected at approximately one-fifth of the former value. Strong opposition was maintained to the last to this scaling down of the value of the money, which has the effect of scaling down all indebtedness in the form of promises to pay francs. The entire pre-war public debt is thus reduced at the expense of the bondholders, and this debt was very widely held among all classes of the French people. Even members of Premier Poincare's cabinet resisted the policy, characterizing it as signifying "four-fifths bankruptcy." The Premier himself is known to have been very reluctant to abandon the hope that a higher rate of valorization might be possible. Indeed the financial world outside of France recognized the necessity even before the French leaders were willing to admit it to themselves. The great body of existing indebtedness, public and private, was an insuperable obstacle to resumption on the pre-war basis. Moreover, any attempt to materially raise the value of currency would have involved a lowering of wages and prices which would have thrown industry and trade into hopeless confusion.

The new value is practically the same as that at which the currency has been maintained for the last year and one-half, by Governmental policy, with the cooperation of the Bank of France.

Under the new act the Bank of France is required to maintain a gold reserve of 35 per cent against notes and deposit liabilities, and its gold holdings are automatically marked up to the new rating in francs. The first balance sheet under the new regime shows sight liabilities consisting of 58.772.000.000 of circulating notes and 12,757,000,000 francs of current accounts and deposits, inclusive of 7,013,-000,000 of Treasury deposits, together aggregating 71,529,000,000 francs. Against the foregoing, the Bank holds 28,935,000,000 of gold coin and bullion, which gives a gold reserve of 40.4 per cent. If Treasury funds are not included the reserve is about 45 per cent.

The veil is now lifted upon the purchases of foreign exchange which the Bank has been known to be making over the last year and a half, in pursuance of the policy of maintaining French exchange at a fixed level. It was obliged to buy or sell exchange as offered at the fixed rates, and inasmuch as the movement of capital has been largely into France it was known to have accumulated very large sums in foreign financial centers. The new statement shows three important items of foreign holdings, as follows:

	Francs
Available at sight abroad	15,985,000,000
Foreign exchange loaned	9,778,000,000
Negotiable bills bought abroad	10,545,000,000
	36,308,000,000

At 25.52 francs to the dollar the value of these holdings is approximately $1,422,000,000, and of this sum it is understood that about $630,000,000 are carried in current accounts, mainly with New York and London banks, that about $400,000,000 are invested in bank acceptances, mostly English and American, and the balance, approximately $400,000,000, is loaned to French banks, with maturities in July and August.

These entire holdings which may be assumed to be convertible into foreign exchange within a short period, plus the gold reserve, make a total of 65,243,000,000 francs, or a sum which almost covers the entire demand liabilities of the Bank, exclusive of the Government deposits.

It is evident that the Government was well justified in announcing that it had no need to arrange for foreign credits in support of the policy of stabilization.

The revaluation of the gold holdings of the Bank from the old rating to the new resulted in a nominal increase of approximately 23,000,-000,000 francs, which accrued to the State and was applied upon the indebtedness of the Government to the Bank. The item carried in the balance sheet as "Advances to the State" had been as high as 38,500,000,000 francs at the maximum in 1926, but had been reduced by several funding operations to 18,400,000,000. Another item among the assets of the old balance sheet was "Foreign Governments, 5,-930,000,000 francs," which represented advances to the Russian Government of the Czar on behalf of the French Government. The two items combined amounted to 24,330,000,-000 francs, and the difference between this sum and the gains by revaluation of the gold stock has been adjusted so that the two items of Government obligations have completely

disappeared from the balance sheet. Thus the Bank is now clear of political debts and is in an extraordinarily liquid condition.

The question naturally arises as to what the policy of the Bank will be in regard to the great holdings of ready funds abroad. In the first place, it probably will wait to see the effect of stabilization upon the movement of capital. There is some reason for thinking that the movement of funds into France has been in part for temporary purposes, in anticipation of the act of stabilization, and to participate in the rise of French securities which has been going on. If this capital should be withdrawn, the home liabilities of the Bank would be diminished by drafts against these foreign credits, and as the gold reserve would be undisturbed by such operations the reserve percentage would rise. On the other hand, if there is a plethora of capital in France, as seems likely to be the case, French capital naturally will seek better paying investments abroad, and transfers will be effected by paying currency into the Bank for the purchase of foreign exchange, with the same result as when foreign capital is withdrawn. In brief, a natural distribution of these accumulations will eventually occur.

The internal debt of France is nearly ten times what it was before the war, but inasmuch as it is now payable in money of only about one-fifth the value of that then current, the burden is not so much greater as at first might appear. The industries of the country are in a higher state of development and efficiency, the provinces of Alsace and Lorraine have been recovered, and, after all, the internal debt is owing from one pocket to the other.

Business has been conservatively managed in France during the years of uncertainty and well informed opinion holds that it is generally in very sound condition.

A wonderful transformation has taken place since Premier Poincare assumed the reins not quite two years ago, and great credit is due to him and to the men of more or less divergent views who have cooperated with him.

Since the election held in May last, reports have been current that when the plans for stabilization had been consummated the various political controversies which had hampered the Government under previous administrations threatened to break out afresh and that the coalition Government might go to pieces. The achievement of the present Government in placing France on a sound financial basis is so remarkable that it would seem to be highly desirable to maintain as long as possible the unity which has done so much to exalt the prestige of France in the eyes of the world. While the new monetary system is so firmly established that no alteration is to be feared, it remains true that firm and consistent economic policies will be required for many years to come. There is a great task ahead to reduce and refund the indebtedness and thus accomplish a reduction of taxation in the only manner consistent with increasing financial strength.

The Farm Problem

The forensic powers of Senator Borah have been seldom seen to better advantage than in his speech in support of the majority report of the Committee on Resolutions before the Kansas City Convention. Speaking of the so-called "equalization fee" of the McNary-Haugen bill, which was the crux of the difference between the majority and minority reports, he said, in part:

> There are two objections to it. The first is that it cannot be done.
>
> There is no power under the Constitution of the United States which permits a Congress to delegate to twelve men the power to impose a tax or an equalization fee upon a citizen of the United States. And if anybody should propose to amend the Constitution so as to give a Congress the power to delegate that power to a bureau the farmer would be the first to fight such tyranny.
>
> But, my friends, suppose it is constitutional. Let us assume for a moment that power exists. I could never for myself get my consent to give to a bureau, a highly paid and highly incompetent bureau, the power to levy a tax or a fee upon the American farmer to whatever extent in its judgment it thought proper to do.
>
> This power is given so that it may be levied upon every farmer of the United States, whether in his judgment he should be a member or a part of the bureau or not. In other words, it is proposed to give the power which will deny the farmer the right to stay out of it, which will deny the farmer the right to get out of it, and which will make him pay for his imprisonment while he is there. The American farmer would be the first to burn us in effigy if it should appear that that bureau had levied a fee which he thought was improper.
>
> No, my friends, the farmer has his problems. But I do not believe, and I represent an agricultural state, that in order that he may be helped he should be called upon to surrender his initiative, his individuality, his economic independence and turn it over to an autocratic bureau at Washington.
>
> Over in Russia Lenine and Trotzky said to the Russian peasant: "Bring your stuff to us. We will market it for you and we will return to you the profits —if there are any." The Russian peasant, having got the first inspiration of liberty for 300 years, said to Lenine and Trotzky: "We will not bring our stuff to you. We will have a voice ourselves in marketing that which we produce. It will be carried on under the judgment of the Russian peasant and not under the judgment of a bureau at Moscow."
>
> In my opinion, friends, the greatest benefit and the greatest favor which has been rendered to the American farmer in his economic independence was when Calvin Coolidge vetoed this bill. And the time will come when the American farmer will recognize the courage and the statesmanship of the man who vetoed the plan to make him a bureaucratic rat.

This argument is based upon the fundamental principle that individual liberty is too precious to be sacrificed for anything else. In reply to it, champions of the bill have said that we have other Boards and Commissions with delegated powers, notably the Interstate Commerce Commission with authority over the railroads and the Reserve Board with authority over certain banks. These instances

are not in point. The railroads and the Reserve banks are regarded as necessary monopolies, and subject to regulation as such. The proposed act would take charge of the marketing of farm crops without the consent of the owners.

The Senator's argument, however, raises a question about the wisdom of one of the declarations of the majority report, which he was championing and which was adopted by the convention. We refer to that which pledges the party to the development and enactment of measures which will place the agricultural interests of America "on a basis of economic equality with other industry." If by "economic equality" is meant equality of earnings or equality of possessions, we venture the opinion that it cannot be had under the regime of individual liberty for which he so eloquently contends. It can be had only under the Soviet system, which he condemns.

This of course is not to impeach the good faith or purpose of the declaration, but only to express an opinion as to the futility of an attempt by a Government to regulate the economic relations between the various industrial groups. A Government cannot determine the relative compensation which shall be maintained between, for example, the building trades, railroad employes, textile operatives, steel mill operatives, coal miners, machinists, chauffeurs, servants, laborers, bookkeepers, merchants, the professional classes, and the farmers, or the relative compensation of capital in the various lines of business, by any other than the Soviet plan. Any attempt to do so would be inconsistent with the free exchange of services which is fundamental to the existing regime. Such relations are regulated by freedom of movement for everybody into or out of any of the occupations.

Who is to determine what is a state of "equality" for agriculture with other industry? Some people prefer farm work and farm life, with their varied compensations, to other employments and conditions, even though they handle less money, and the number of persons who make this choice is what determines their compensation in the long run. The Government could not undertake to assure stated prices for farm products, regardless of the number of persons who might engage in farming or the quantity of their production from time to time, nor could it undertake to determine how many farmers there should be. Yet these are the factors which determine average compensation, not only in farming but throughout industry and business.

The Phenomena of Booms

We have received a letter from a good banker in Ohio in which, with reference to the discussion of the McNary-Haugen bill in the June number of this publication, he says:

"Almost thou persuadest me to be an anti-McNary-Haugenite.

But you see I have land and have had land since 1900; so I have gone up and down with agriculture. Agriculture was on the upgrade for twenty years, from 1900 to 1920. With us, in one of the best agricultural counties of Ohio, our 250,000 acres went from an average of $25 an acre in 1900 to an average of $200 in 1920. During 20 years our 2,900 farmers made far more on the annual increase of their land than from their farm operations. Since 1920 land has dropped, on the average, $100 an acre, and our 2,900 farmers have lost, per capita, $8,500. What is true of this county is true to a greater or less extent of literally hundreds of counties in the fifteen Mississippi Valley states.

From 1900 to 1920 the farmer's dollar was full 100c. Since 1920 it has been far below 100c. Why? Because what the farmer must spend in the operation of his farm has literally doubled, whereas what the farmer receives is not very much more than he received in 1914. Let us consider his expenses:

1. Taxes are twice as much.
2. All farm improvements cost twice as much ;e. g., fencing, tiling, repairing buildings, building operations generally, etc.
3. Labor cost twice as much.
4. Tools, implements, machinery, supplies cost twice as much.

In a word, the cost of operating and maintaining a farm in good, physical condition and in a good state of cultivation, is twice what it was. I know this because I have had nearly 30 years experience.

Added to all this, added to these relentless fixed charges, out of the last seven years we have not had a single good year; not a single year of real abundance. The elements have got us every year. Of course this is not true of every section of the country, but it is true, literally, of ours. During the seven years we have had two severe droughts, three excessively wet periods, two very hard frosts, one in June and one in early September, one fatal hail storm, and several other climatic misfortunes.

Now the man on the farm today is face to face with the high cost of farming, on the one hand, and uncertain and capricious weather on the other. He has always had the latter, but never before the former. In the middle of the nineties the farmer received far less for his crops than he receives today, but he paid only a fraction of what he pays today for all the things he bought.

Linked with the high cost of farming and the uncertainty of weather, the farmer has for seven years had great price variability. Occasionally prices have been sufficient, but the rule has been prices below cost of production."

This is a coherent and intelligent statement of the farm situation as seen in many sections, although the comments upon prices hardly apply generally today. It is true, however, that the farm situation since 1920 has not been normal. On the other hand it is a fair question whether conditions were normal in the twenty years from 1900 to 1920 in which the annual increment in land values was far greater than the earnings from farm operations, and whether a long-continued situation like this does not result in conditions which are inherently unsound and ripe for disaster. The rising prices of lands and products were stimulating the expansion of agriculture in the plains regions of the West, which are now producing an important part of the wheat crop, and all over the world. Furthermore, they were inducing speculative bidding for farm lands, and encouraging farmers to incur indebtedness to buy each other out. The effect was to engender false ideas of prosperity and spending power, and to cause a great increase of indebtedness, private and public, which is

now a prior lien on earnings. The war with its inflation of prices, wages and taxes put the top story upon the whole structure, and the immigration acts practically fixed the wage level.

Our friend surely does not think that all of these conditions could be regarded as permanent, or that after twenty years of continuance, which included the stimulus of a great war, such a period could come to an end without any disturbance?

Statisticians have established the fact that from 1900 to 1914, wages barely kept pace with the rising cost of living. Wage earners were having a constant struggle to hold their own, the farmers having all the best of the situation. Such one-way trends do not continue indefinitely. Not much can be done with them by law-makers, but the economic laws ultimately work for equality.

Portions of this letter read very much like letters from Florida, where a real estate boom has come to an end, leaving in its wake, much indebtedness, reduced incomes and high taxes, while climatic disasters complete the parallel. Misfortunes never come singly, and Josh Billings said that when a man once got started down hill he usually found everything greased for the occasion.

If our friend will come down to Wall Street he may view the remains of another boom which only a month or so ago was said, after several years of great success, to be only just getting started. The almost perpendicular drop of certain stocks has been as great as the decline of farm values. It is characteristic of all booms that they never look more normal and healthy to their victims than just before they blow up.

Changes Affecting Consumption

The coal industry had a greater war time boom, with a short period of high prices, which stimulated an expansion of mining operations and at the same time stimulated the substitution of other fuels and sources of power, and also stimulated efficiency in the consumption of coal, with the result that about 20 per cent less coal is now needed to produce a given result in a locomotive or power station as before the war. Hence there is need that the coal industry shall adjust itself to new conditions.

Something like this has occurred as to farm products. Dietary habits have undergone a change. The old staple foods are consumed in less quantities. The per capita consumption of flour in 1909 was 1.04 barrels and in 1925 .89 of one barrel, or a reduction of about 14 per cent, in sixteen years. Secretary Jardine of the Department of Agriculture, at a banquet in Oklahoma City a few weeks ago, referred to such changes in the following language:

For example, we are witnessing a marked change in the consumption habits of the public. Take, for example, grain consumption. This year the consumption of grain is less than in the average year from 1910 to 1914 by a quantity which represents the production of nearly 20,000,000 acres. The 25 per cent decrease in horses and mules due to increased use of machinery has cut grain consumption approximately 15,000,000,000 pounds. The remaining 8,000,000,000 pounds in decrease in consumption of grain is accounted for largely by the use of this quantity for alcoholic drinks before the advent of national prohibition.

Again, per capita consumption of meat in 1907 was 159 pounds. It is now approximately 143 pounds; much higher than it was in the war years, but still far below the 1907 figures. The average person in America today is eating 16 pounds of meat a year less than in 1907. If per capita consumption were the same now as in 1907, approximately 1,900,000,000 pounds more meat would be consumed annually.

On the other hand, the consumption of certain other agricultural products, such as dairy products, vegetables and fruits, has shown a marked increase.

If we are to do the job of agriculture we must meet these conditions and similar conditions as they arise. We must adapt our production to the demand in kind, quantity, and quality, and must market our products to the best advantage.

Farm Situation Not Hopeless

The foregoing comment should not be taken as signifying an opinion that the farm situation is hopeless. It is hopeless only so far as artificial relief is concerned. The farm is settling the bill for so much as was fictitious in that prosperity which reigned from 1900 to 1920, just as the people of Florida, the boomers of the New York stock exchange, the coal industry and other industries which might be named, are settling for their periods of overstimulation.

The farm situation, all representations to the contrary notwithstanding, is clearing. The live stock industry is in healthy condition, the dairy industry has not been depressed at any time. The price of cotton at this writing is 60 per cent above the pre-war level. The market price of every commodity shows a ready response to conditions of supply and demand. The wheat crop of this country last year was one of the largest ever grown, and the world crop was one of the largest, and it is interesting to compare this year's prices with those of before the war. The average price of wheat in Chicago in the five years 1909-13, as given in the Report of the Federal Trade Commission on the Grain Trade was 97.6 cents per bushel. The average for the eleven months of the crop year, July, 1927 to May, 1928, has been $1.413 per bushel. In the meantime, the cost of producing wheat has been materially reduced where the new combined harvester and thresher is used, and its use is rapidly extending.

The Bureau of Economics, Department of Agriculture, in its price index representing the prices of 30 leading agricultural products, calculates them at 148, in comparison with a base figure of 100 for the five years 1909-13.

Assistance to Cooperative Associations

The claim that the Government should maintain equality for agriculture is explained by many advocates to mean that it should aid the farmers in obtaining an equality of bar-

gaining power in the markets, and in stabilizing the prices of their products. It is urged that assistance should be given in the organization of farmers' cooperative associations, to conduct marketing operations and to promote more systematic direction of farming operations.

The specific pledge of the Kansas City platform is for "the enactment of legislation creating a Farm Board clothed with the necessary powers to promote the establishment of a farm marketing system of farmer owned and controlled stabilization corporations or associations to prevent and control surpluses through orderly distribution." Another paragraph says that this is to be done "without putting the Government into business."

The Democratic platform, adopted at Houston, makes the same general declaration as the Republican platform in behalf of the "economic equality of agriculture with other industries," and pledges the party to "the establishment of a new agricultural policy fitted to present conditions, under the direction of a farm board vested with all the powers necessary to accomplish for agriculture what the Federal Reserve Board has been able to accomplish for finance," and to "foster and develop cooperative marketing associations through appropriate Governmental aid." It does not endorse the McNary-Haugen bill, but pledges "an earnest endeavor to solve this problem of the distribution of the cost of dealing with crop surpluses over the marketed units of the crop whose producers are benefited by the assistance." Apparently this is an endorsement of the principle of the McNary-Haugen bill, with a reservation that a problem in connection with it remains—possibly the problem of harmonizing the principle with the Constitution of the United States.

There is not the slightest reason to doubt that both the political parties earnestly desire to promote better conditions for agriculture, for everybody does. There is no disagreement except as to the practicality of measures that are proposed. Everybody has the best intention but nobody knows what to do. There is danger in such a situation, that legislation will be passed which will turn out to be not only ineffectual for any good, but harmful to all interests.

The one proposal upon which both platforms are agreed is the promotion of farmers' cooperative organizations. Unquestionably there is good in cooperative organization, even if it is not a complete panacea.

There are many examples of successful cooperative associations among farmers. We have the idea that they are more likely to be successful if they develop gradually and in their own strength than if they are promoted or the management taken in any degree out of their hands. There is great value in the experience of cooperation and the practical knowledge which it gives of all marketing conditions and all the factors which affect the value of farm products. There is educational and social value in the cooperative effort, but these values are largely lost unless there is active and responsible participation by the individual members.

All that the Government can do to collect and disseminate reliable information about the crops in this and other countries—acreage, seasonal progress, yields and movement into consumption—should be done, in order that the farmers may have the benefit of the information in planning their business.

In all lines of industry the tendency of the times is to the development of a greater degree of organization and cooperation—to promote more orderly operations, instead of blind production for an unknown market. No industry needs such organization more than agriculture. It is conceivable that State and National programs of production may be worked out to some extent, so that the farmers of different sections may at least know something of each other's plans and take account of them. Agriculture is and always will be the country's greatest single industry, and everything that the Government can do to aid in its efficient and successful direction and conduct should be done.

The Government spends a very large amount of money upon scientific research through the Department of Agriculture and the numerous experiment stations maintained in connection with the State Colleges of Agriculture. It spends large sums in combatting insect pests and in the development of improved plants and breeds. One of the acts of the last session of Congress was to provide for studies for the development of new uses for cotton. Such undertakings, if wisely directed, are justified as in the interest of the entire public. It is important, however, that there be a general understanding of the fact that while progressive farmers benefit by the introduction of new methods, farmers who fail to keep up with improved methods will be worse off as the result of them, because of harder competition.

Muscle Shoals Nitrates

A bill providing for Government operation of the Muscle Shoals nitrate plant passed both Houses, but the President did not choose to sign it, hence it failed to become a law. Presumably the explanation of his failure to sign is to be found in his known opposition on principle to putting the Government into ordinary business. He holds that it is easier to keep it out than to put limits upon how far it shall go in. The argument for having the Government operate the nitrate plant has been that it

might supply cheap fertilizer to the farmers and thereby help in the solution of the farm problem.

There is no doubt that crop production can be cheapened by a more general use of fertilizers, but if all farmers suddenly began to use fertilizers, farming might be yet more unremunerative, unless the number of farmers or of acres under cultivation was reduced.

It is characteristic of all innovations reducing costs in industry that although they are advantageous to the early users, as soon as their use becomes general the benefits are passed on to consumers. This has been true of farm machinery, and is true of all new benefits, whether they result from invention or legislation. If any single industrial plant should be relieved of all taxation, it would be able to keep the benefits to itself, but if all industrial plants in a given line of industry should be relieved of taxation, profits throughout the industry soon would be no larger than before, and this is the fundamental difficulty with any legislation which is intended to confer benefits on all farmers.

We referred last month to the statement by Mr. Charles M. Schwab, Chairman of the Bethlehem Steel Corporation, that this company had expended more than $150,000,000 since 1923 for the improvement of its works, and had seen practically all of the benefits passed on to the public, because all its competitors had been doing the same. Mr. Schwab's philosophical reflection was: "Well, where would we have been if we had not expended it?"

Interest on Bank Deposits

Opinion has been steadily growing for some time that conservative banking policy required that interest payments on deposits should be lowered in conformity to the declining tendency of bank earnings. Although bankers have been generally favorable to reductions upon prevailing rates on savings and time deposits, the indisposition to lead off singly has delayed action. However, on July 1, 1928, mandatory official orders limiting interest rates on such deposits will go into effect in two States, to-wit: Kansas and Minnesota.

In Kansas the State Bank Commissioner, Mr. R. L. Bone, under authority of State law, has issued an order, effective at the above named date, fixing 3 per cent as the maximum rate which may be paid by State banks upon time certificates of deposit. Such certificates may be issued for not less than three months or more than two years. Saving deposits, represented by entries in a standard form of pass book, may draw not to exceed 3 per cent per annum, to be credited not oftener than twice a year, and such accounts are not be used as checking accounts.

This action was preceded by a questionnaire canvass of the State banks, which resulted in replies which were more than two to one in favor of the action.

Following the State Commissioner's action, the Comptroller of the Currency addressed a communication to all National banks located in Kansas, calling attention to the Commissioner's order, and saying:

> Section 24 of the Federal Reserve Act provides that national banks shall not pay interest on deposits in excess of the rate allowed by the State. The order of the Bank Commissioner makes the rates fixed by him the legal rates for the State and it will be necessary for the national banks in Kansas to comply therewith.
>
> Please acknowledge receipt of this letter.
>
> (Signed) J. W. McINTOSH, Comptroller.

The Bank Commissioner of Minnesota, Mr. A. J. Veigel, issued, on May 21, an order limiting interest rates on deposits to 4 per cent. The rate fixed is higher than named in Kansas, but local conditions necessarily govern. In the opinion of the Minnesota Commissioner, the rate in many localities of that State should not be above 3 per cent. In his circular letter announcing his determination, the Commissioner says, in part:

> We have made an exhaustive study of the interest rates paid by banks on time deposits in this and other States, and have come to the conclusion that many banks are paying too high a rate of interest on time deposits, and as a direct result such a bank is unable to "perform its functions and fulfill its obligations."
>
> The public is primarily interested in safe banks, so that their hard earned savings are adequately protected.
>
> Broad public policy and sound banking, demand that a bank invest part of its funds in strictly liquid assets, so that it can meet withdrawals when necessary. Under present conditions, such securities bear a low rate of interest. Many banks are now paying more interest on time deposits than they get on such securities. This practice is certainly not in accordance with "sound banking principles," and has resulted in many banks closing.
>
> We have an opinion from the Attorney General's office that "if you determine that a given rate cannot be legitimately paid by banks in general, then a general order may be made prohibiting the payment in the future of such excessive rate."
>
> We now ask all State banks to thoroughly investigate the interest they can afford to pay on time deposits, and if necessary and advisable to reduce their rates. Many banks are now paying 3 per cent, and, in our opinion, many others should adopt that rate.
>
> We are entirely satisfied that no bank under present financial conditions and the low interest rates paid on gilt edge securities, can afford to pay more than 4 per cent on time deposits.
>
> We, therefore, instruct all State banks in Minnesota that they are hereby prohibited from paying more than 4 per cent on savings deposits on and after July 1, 1928, or on certificates of deposit issued or renewed after that date.

The Comptroller of the Currency has addressed a circular letter to all National banks in Minnesota, requesting that they conform to the action of the State Commissioner.

The legislature of Virginia recently passed a law fixing 4 per cent as the maximum rate which commercial banks might pay on savings accounts, but at the annual convention of the Virginia Bankers Association, held last month, an overwhelming majority adopted a resolution declaring it to be "ill-advised to pay a higher rate of interest than 3 per cent on savings accounts and time certificates."

EVERY OFFICER of these two banks occupies his position because of his particular ability to serve you as a customer of the largest financial organization in the Ninth Federal Reserve District should be served.

OFFICERS OF THE FIRST NATIONAL BANK

L. E. WAKEFIELD, President

F. M. PRINCE, Chairman Board of Directors

F. A. CHAMBERLAIN, Chairman Executive Committee

J. S. POMEROY, Vice-President

P. J. LEEMAN, Vice-President

J. G. BYAM, Vice-President

G. W. BUFFINGTON, Vice-President and Gen'l Counsel

ARTHUR P. KEMP, Vice-President

FRED SPAFFORD, Vice-President

S. H. BEZOIER, Cashier

JOHN G. MACLEAN, Asst. Cashier

WALTER A. MEACHAM, Asst. Cashier

C. B. BROMBACH, Asst. Cashier

J. A. MURPHY, Asst. Cashier

J. CLAYTON, Asst. Cashier

G. WOODS SMITH, Asst. Cashier

W. A. VOLKMANN, Asst. Cashier

LYLE W. SCHOLES, Asst. Cashier

A. G. BJERKEN, Asst. Cashier

M. O. GRANGAARD, Asst. Vice-Pres.

A. H. QUAY, Asst. Cashier

VINCENT MCLANE, Asst. Cashier

K. M. MORRISON, Comptroller

A. E. WILSON, Asst. Comptroller

OFFICERS OF THE FIRST MINNEAPOLIS TRUST COMPANY

ROBERT W. WEBB, President

ELBRIDGE C. COOKE, Chairman Board of Directors

W. H. LEE, Chairman Finance Committee

LYMAN E. WAKEFIELD, Vice-President

F. A. CHAMBERLAIN, Vice-President

H. C. CLARKE, Vice-President

C. T. JAFFRAY, Vice-President

W. G. NORTHUP, Vice-President

HUGH W. MARTIN, Treasurer

B. S. WOODWORTH, Asst. Secretary

DELMAR E. KULP, Auditor

Banking Department

W. F. MCLANE, Vice-President

VICTOR F. ROTERING, Cashier

ROGER I. LEE, Asst. Cashier

J. A. DAVIS, Asst. Cashier

J. M. DOWNES, Asst. Cashier

Bond Department

I. H. OVERMAN, Vice-President

HENRY E. ATWOOD, Bond Officer

Farm Loan Department

E. J. GRIMES, Vice-Pres. and Farm Loan Officer

Real Estate Department

A. C. DANENBAUM, Real Estate Officer

Trust Department

A. B. WHITNEY, Vice-President and Trust Officer

WILLIAM J. STEVENSON, Vice-President and Trust Officer

H. V. BRUCHHOLZ, Secretary

HENRY VERDELIN, Assistant Secretary

PAUL REYERSON, Asst. Trust Officer

A. W. L. WALLGREN Asst. Trust Officer

FIRST NATIONAL BANK
ORGANIZED 1864
FIRST MINNEAPOLIS TRUST COMPANY
ORGANIZED 1888

MINNEAPOLIS, MINNESOTA

Stockholders of these two institutions are identical.
Combined Resources total over $140,000,000.